STATE OF MONTANA

MILES COMMUNITY COLLEGE

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1976

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

STATE OF MONTANA

MILES COMMUNITY COLLEGE

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1976

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BOARD OF REGENTS OF HIGHER EDUCATION

Thomas L. Judge, Governor*

Georgia Ruth Rice, Superintendent of Public Instruction*

Lawrence K. Pettit, Ph.D., Commissioner of Higher Education, Secretary

Sid Thomas, Student Representative	Missoula	1978
Mary Pace	Bozeman	1978
Ted James, Chairman	Great Falls	1979
Jeffrey Morrison	Helena	1980
John Peterson	Butte	1982
Lewy Evans, Jr.	Billings	1983
Lola Hansen	Sidney	1984

*Ex Officio Members

Miles Community College

Board of Trustees

James Lucas	1977
Jerry McKibbin	1978
Jessica Stickney	1978
Nick Lopez	1979
Norman Carey	1979
Gerald Rowen, M.D.	1979
Eilleen Carlson, Chairman	1980

Administration

Vernon Kaily	President
Judson Flower	Dean, Instructional Services
Stephen Maier	Dean, Student Services
Wayne Muri	Comptroller

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Miles Community College and the Commissioner of Higher Education are included in the back of this report.

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The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of Miles Community College as of June 30, 1976, and the related statement of changes in fund balances and statements of current funds revenues and current funds expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances except as indicated in the following paragraphs. We did not test the assets, liabilities or operations of the National Direct Student Loan Program, Nursing Student Loan Program, College Work Study Program, Supplemental Educational Opportunity Grants Program, Nursing Scholarship Program or Basic Educational Opportunity Grants Program. The operations of these programs were examined by other accountants whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for these programs is based solely upon the report of the other auditors.

Our examination was made in accordance with the CETA Financial and Compliance Audit Guide and provisions of the General Accounting Office <u>Standards for Audit of Governmental Organizations, Programs, Activities and Functions</u>. In making our examination, nothing came to our attention that caused us to believe that there were any events of noncompliance by

Miles Community College in fulfillment of the terms of the CETA contract.

The college's accounting records are inadequate. The college does not utilize a general ledger, and certain account balances are not recorded. The college does not record accounts receivable or accounts payable. This practice is at variance with generally accepted accounting principles. We used available records to determine the amounts shown in the accompanying financial statements for these accounts. We have no assurance that all receivables and payables are reported.

The college does not maintain adequate records for inventories. It was not practicable for us to determine the value of inventories for balance sheet presentation.

The condition of the college's accounting records relating to investment in equipment was such that we were unable to perform certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. Historical cost records are not available, and subsidiary records are not maintained.

Because of the deficiencies in the college's accounting records described above, we do not express an opinion on the accompanying balance sheet at June 30, 1976, or the statement of changes in fund balances for the year ended June 30, 1976.

The accompanying financial statements were prepared in accordance with the fund accounting system for colleges and universities recommended by the American Council on Education (College and University Business Administration, 1968). The college has not maintained its accounting records according to this system; therefore, the accompanying financial statements are not prepared on a basis consistent with that of the preceding year.

In our opinion, based upon our examination and the report of other accountants, which report relates to student aid programs, the accompanying statements of current funds revenue and current funds expenditures present fairly the current funds revenue and expenditures for the year ended June 30, 1976, in conformity with generally accepted accounting principles. We did not audit the financial statements for the year ended June 30, 1975, and accordingly we do not express an opinion on them.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

December 10, 1976
and May 25, 1977
as to Note 5 to the
Financial Statements.

GENERAL

In 1939 the Legislative Assembly passed legislation enabling the establishment of Custer County Junior College. In 1966 the name was changed to Miles Community College. The community college district was established in 1970 by action of the local joint High School-College Board which governed the college up to that time. In 1971 the Northwest Association of Schools and Colleges granted full accreditation to Miles Community College.

Under the laws of Montana the Board of Regents of Higher Education are vested with the general supervision of the college. The Board of Trustees of Miles Community College oversees the operation of the college. The college president is responsible for the immediate direction, management and control of the institution.

Miles Community College has the authority to grant Associate in Arts and Associate in Applied Science degrees for completion of programs of 90 hours of course work. The college also awards certificates for satisfactory completion of programs of fewer than 90 credit hours.

The college enrollment is over 300 full-time students and 500 part-time students, with a full-time equivalent of approximately 425 students.

During fiscal year 1975-76 the college received its current funds revenue from the following sources:

Source of Revenue	Amount	Percentage
State General Fund	$350,642	35
District Levies	242,006	24
Student Fees	96,075	9
Governmental Grants and Contracts	180,706	18
Auxiliary Enterprises	80,593	8
Other	63,333	6
Total	$1,013,355	100

Legal Status

The statutory provisions relating to community colleges are contained primarily in Title 75, Chapter 81, R.C.M. 1947. Section 75-8101 provides in part:

> "As used in this title, unless the context clearly indicates otherwise, the term 'community college district' means a body corporate and a subdivision of the state of Montana organized under a single board of trustees. . . ."

Section 75-8102, R.C.M. 1947, provides in part:

> ". . . the community college district may sue and be sued, levy and collect taxes within the limitations of the laws of Montana, and possess the same corporate powers as districts in this state, except as otherwise provided by law."

These statutes provide that a community college district is a body corporate, a subdivision of the state, and that it possesses the same corporate powers as school districts.

Whether school districts and community college districts are state agencies, and thus subject to laws applicable to state agencies, is unclear. A number of Supreme Court decisions and Attorney General's opinions have held, in effect, that school districts are considered subdivisions of the state, instrumentalities of the state and state agencies, depending upon the situation. The result of these holdings is that the applicability to school districts of laws relating to state agencies must be determined by an examination of the particular statutes on an individual basis. We have examined various statutes during this audit to determine their applicability to community colleges.

Senate Joint Resolution 11, passed by the 45th Legislature, calls for an interim study to clarify, update, supplement and revise the laws relating to community colleges. The Committee on Priorities has assigned this resolution to the Joint Subcommittee on Education for study during

the interim. We agree that a study and subsequent legislation are needed to clarify the legal status of community colleges.

COLLEGE ACCOUNTING

Generally, accounting systems are intended to provide management and other interested parties with accurate, relevant, and timely information for decision-making purposes. Because various types of organizations and managers need different information, not all accounting systems are, or should be, the same. However, over the years a set of generally accepted accounting principles has been developed and is used by most businesses. Similarly, to meet the special needs of governmental organizations, a set of generally accepted accounting principles for governmental organizations has been developed and is generally followed by most governmental units in the United States. Due to the variety of funding sources available to universities and outside limitations imposed on the use of some funds, present accounting needs of universities vary somewhat from the needs of other governmental organizations.

The American Council on Education (ACE) has developed and recommended a fund accounting system for colleges and universities (*College and University Business Administration*, *1968*). In addition, the American Institute of Certified Public Accountants (AICPA) has recommended that a fund accounting system substantially the same as that recommended by the ACE be implemented by colleges and universities for fiscal years beginning after June 30, 1973, (*Audits of Colleges and Universities*). The accounting system used by the Miles Community College does not conform with the fund accounting system recommended by ACE.

College Recordkeeping

The college utilizes three accounting systems. These are for funds in the county treasury, auxiliary funds, and student aid funds. The college maintains certain student aid moneys in a local bank and National Direct Student Loan Funds with a Chicago bank which services the loans.

Moneys in the county treasury are received from general fund appropriations, district levies, tuition deposits, interest income and federal sources. The college uses a "pegboard" system in accounting for moneys in the county treasury. The pegboard system is basically a carbon paper system whereby an entry is made in the receipts or disbursements journal and is simultaneously recorded on a fund ledger card. This procedure categorizes receipts and disbursements by college department.

The recordkeeping for the auxiliary account is in a receipts and disbursements journal and a cash ledger. The ledger contains separate columns for various types of moneys deposited in the account. Sources of moneys deposited in the auxiliary account include receipts from tuition, the bookstore, food service, and student activity funds such as the Rodeo Club, DECCA, and Student Nurses Association. These moneys are deposited in a local bank account. When checks are written or receipts received, the appropriate activity is charged or credited. Each month the total expenditures and receipts are summarized, and the amounts are recorded in the cash ledger. This enables the college to know its bank account balance with a minimum of effort.

The above-described systems in use by the college are not adequate in that they are not complete accounting systems. To maintain adequate control over the assets and liabilities of the school and to provide a

means for reporting the school's activities, the college should establish a general ledger which includes all college funds. The ledger should be maintained and posted on a monthly basis to show changes and balances of the college's assets, accumulated revenues, expenditures and liabilities for each fund. The ledger would include accounts for receivables, payables, and plant, property and equipment.

The diverse nature of college operations and the necessity of determining legal compliance preclude a single set of accounts for recording the financial transactions of a college. Instead, the accounts must be organized on the basis of funds, each of which is independent of any other. Each fund must identify its resources, obligations, revenues, expenditures and fund balances. The accounting system recommended by ACE provides this fund structure. The financial statements should be made directly from these accounts.

Section 75-8103, R.C.M. 1947, provides in part, "The regents shall . . . formulate and put into effect uniform policies as to budgeting, recordkeeping, and student accounting." The board has not yet implemented such policies for community colleges. The Board of Regents should formulate and help implement a recordkeeping system in accordance with the fund accounting system recommended by the ACE.

RECOMMENDATION

We recommend that:

1. *The Board of Regents establish a uniform community college recordkeeping system in accordance with the fund accounting system recommended by the ACE.*
2. *The college establish and maintain a general ledger which includes all college funds.*

Accrual Accounting

The college currently does not maintain its records on the accrual basis of accounting. The accrual basis identifies revenues and expenses with the periods of time in which revenues or expenses are incurred, without regard to the date of receipt or payment. Revenues should be reported when earned, and expenditures should be reported when materials or services are received.

At the end of each fiscal year Miles Community College writes warrants for goods which have been ordered but not received and for all invoices which it has received even though the goods or services may not have been received. The college holds the warrants until the goods or services are received. In October 1976 college personnel had in their possession two warrants written in June 1976. These amounted to over $4,700.

The effect of writing and holding these warrants is to understate cash and understate accounts payable in the college's records. We determined the amount of these warrants to be $1,307 at June 30, 1975 and $5,568 at June 30, 1976. The financial statements have been adjusted for these amounts. The use of an accrual system would eliminate this problem.

RECOMMENDATION

We recommend that the college:

1. *Utilize the accrual basis of accounting.*
2. *Write warrants only after goods or services are received.*

INTRA-COLLEGE TRANSFERS

College personnel disburse college moneys from two major sources, termed "general" and "auxiliary". The procedures involved in making

disbursements from these sources are significantly different. Two members of the college's Board of Trustees must sign the general warrants. The board normally meets once a month and performs this duty. College personnel sign the auxiliary checks. These checks are issued whenever needed. The difference in procedures has had a major effect on the recording of college disbursements.

If the college needs a warrant before the monthly Board of Trustees meeting, a check is written from the auxiliary account. The auxiliary check register is credited at the time the check is written. Often these disbursements should be charged against funds in the general account. In order to have the funds charged to the correct account, a general warrant is written to reimburse the auxiliary account. This results in a disbursement in the county warrant register and a receipt in the auxiliary receipts journal. The overall effect is to overstate expenditures and receipts. The Miles Community College accounting system does not disclose these transfers. We have spent considerable time and effort to isolate these transactions so that meaningful financial statements could be prepared.

Correcting the deficiencies in the college's current accounting procedures will require changes in the college's warrant signing procedures. The Board of Trustees should delegate warrant signing authority to college personnel.

RECOMMENDATION

We recommend that the Board of Trustees delegate warrant signing authority to appropriate college personnel.

COLLEGE FINANCING

Community college funding has changed significantly during the past several years. Prior to 1970 community colleges were funded under the foundation program of the Superintendent of Public Instruction. This funding was based upon an "annual number belonging" (ANB) schedule. The ANB was computed by dividing the total number of credit hours awarded by the college by 30 credits, the average number of credits earned by a full-time student. The college budget was set at the ANB times an amount determined by the Superintendent of Public Instruction. This budget was funded by mandatory levies, student tuitions, state appropriations and special levies. The amount of the mandatory levy was set by law.

This funding structure was inadequate for community colleges because the foundation program allowed only students under 21 years of age to be considered in the ANB. High percentages of community college students are over this age.

In 1971, community colleges were placed under the control of the Board of Regents. The community college budget was funded by a mandatory three-mill district levy and by state appropriations. Special levies were voted to supplement the college's funding if the legislative appropriations did not fully fund the budget. This system was not workable because the legislative appropriations were still tied to a determined ANB amount, and special levies were necessary to supplement the college's funding each year. The current funding structure is described as follows:

Section 75-8127, R.C.M. 1947, states, "The board of trustees of a community college district shall adopt an annual general fund budget for

the general maintenance and operation of the community college district. The budget shall be submitted to the regents of the state of Montana for their approval, with or without adjustment. The budget approved by the regents shall be the budget of the community college district submitted to the budget officer of the state."

Section 75-8128, R.C.M. 1947, states in part: "The annual operating budget of a community college district shall be financed at a 65/35 state to local ratio as defined by the board of regents in the order enumerated below:

"(1) the estimated revenue to be realized from student tuition and fees as approved by the board of trustees.

"(2) a mandatory mill levy on the community college district that when combined with subsection (1) of this section will provide thirty-five percent (35%) of the annual budget approved by the board of regents."

The amount of state appropriations and local moneys for Miles Community College for fiscal years 1972-73 through 1975-76 are depicted in the following table.

Source	1975-76		(Unaudited) 1974-75		(Unaudited) 1973-74		(Unaudited) 1972-73	
General Fund Appropriation	$350,642	52%	$267,000	48%	$245,000	53%	$224,842	56%
District Levies[1]	242,006	36%	215,491	39%	155,152	34%	115,827	29%
Tuition and Fees Collected[2]	82,965	12%	73,086	13%	61,803	13%	61,227	15%
Locally Generated Moneys	324,971	48%	288,577	52%	216,955	47%	177,054	44%
Total	$675,613	100%	$555,577	100%	$461,955	100%	$401,896	100%

The mandatory mill levy on the community college district refers to the budget approved by the regents--not the amounts appropriated by the legislature. There is no requirement in Section 75-8127, R.C.M. 1947, that the regents approve a budget within the appropriation limits. Thus, the regents can approve any level of funding, without statutory limitation. The level approved must be funded at a 35 percent level by locally generated money from levies and student tuition and fees. This gives the regents direct authority to raise property taxes in community college districts without statutory limitation or approval of the college district voters. It can be argued that the mandatory levy would be more fair to the community college district if it were tied to the budget approved by the locally elected board of trustees. This would transfer the taxing authority to the local trustees.

For fiscal year 1975-76 the legislature did not fund 65 percent of the regents' approved community college budget. This created a disproportionate burden on the community college district which funded approximately 48 percent instead of the statutory 35 percent.

Statutes concerning the financing of community colleges are not clear, and certain statutes appear to be in conflict with others. House Bill 145, passed by the 45th Legislature, states the legislative appropriation shall provide 65 percent of the operating budget that shall be approved by the Board of Regents pursuant to Section 75-8128, R.C.M. 1947. This appears to be in conflict with Section 75-8127, R.C.M. 1947, which states "the budget approved by the regents shall be the budget of the community college district submitted to the budget officer of the state." House Bill 145 effectively requires the regents to approve a budget deemed appropriate by the legislature.

Section 75-8131, R.C.M. 1947, gives the community college Board of Trustees the authority to submit an additional levy proposition to the electorate of the community college district if the Board of Trustees wishes to adopt a budget in excess of the budget funded by the legislature. Given the language of House Bill 145, a question exists as to whether the Board of Trustees has the authority to submit an additional levy if the legislature funds 65 percent of the regents' approved budget. If by special levies the local trustees can increase community college operations above those approved for funding by the legislature, it may not be reasonable to assume that the legislature will be willing to fund 65 percent of next biennium's budget which includes the increased operations. There is an inherent conflict between local controls and state financing of community colleges.

Community college financing is further complicated because the budget submitted to the legislature is not the total budget for the college. The Board of Regents allows the college to set aside certain revenues which are not included in the 65/35 funding structure. These revenues include interest earnings, a one mill adult education levy on the district, vocational education reimbursement funds, student use fees, and retirement levies. The regents have not defined these resources as state or local.

Inherent in the current funding structure is a dilemma to be addressed by each local board regarding the source of the 35 percent funding. Since tuition and fees is the first component of the 35 percent, but any amount not provided by tuition and fees will be provided by a mandatory levy, the trustees could set minimal tuition and fees and rely on the mandatory levy for a disproportionate amount of funding.

Consideration should be given to the desirability of statutorily separating tuition and fees from the mandatory levy in the 35 percent local funding.

House Joint Resolution 85, passed by the 45th Legislature calls for an interim study of alternative budget and management techniques and for a comparison of alternatives with techniques currently being used by state agencies. The Committee on Priorities has assigned this resolution to the Joint Legislative Finance Committee for study during the interim. That committee plans to address the above described problems of community college financing during its study.

In our review of the college's budget submitted to the Board of Regents for fiscal year 1975-76, we found another problem with the present funding method. College revenues projected in the budget were materially less than actual college revenues. Student tuition and fees were budgeted for $60,000. The amount reported in the college's financial statements is $96,075. The amount actually collected was $82,965. (The college gave $13,110 of fee waivers, which according to generally accepted accounting principles for colleges and universities must be reported as revenue even though there is no intention of collecting from the student.)

At registration time, the college collects student tuition and fees. This money is deposited in a local bank account. By law, the county treasurer is the community college treasurer, and most college expenditures are made through the treasurer's office. When the cash balance in the treasury becomes low, the college transfers money to the treasurer from the local bank account. The college budget includes only those moneys which are expected to be transferred to the treasury. The balances in the local bank account for student tuition and fees were $28,909 at June 30, 1975, and $13,855 at June 30, 1976.

By under reporting revenue from student fees and tuitions, the portion of the school's budget that must be generated locally through a mandatory mill levy is increased. The college should budget and report all revenues earned during a year rather than only the money transferred to the county treasurer.

RECOMMENDATION

We recommend that the college include all revenue expected to be realized from student tuition and fees in the budget provided the Board of Regents.

Distribution of Appropriation

The state general fund appropriation for Miles Community College is included in the appropriation to the Commissioner of Higher Education. The commissioner's office transfers to the college its total amount of funding at the beginning of each fiscal year. This allows the college to invest substantial portions of the money until it is needed.

Other agencies' appropriations are not distributed at the beginning of the year. The commissioner should distribute the money to community colleges on an incremental basis based upon the needs of the college.

RECOMMENDATION

We recommend that the Commissioner of Higher Education distribute appropriated moneys to the college on an incremental basis.

COLLEGE-FOUNDATION TRANSACTIONS

Beginning in the 1930's university foundations were established at many colleges and universities. These foundations were usually non-profit corporations established specifically to provide assistance to

the university to which they were related. These foundations solicited and received funds from others and used the money for the benefit of their parent institutions. Since these foundations are closely aligned with particular institutions, the governing boards of these foundations generally include board members and officers of the parent institutions.

Originally many of these university foundations were established primarily to receive gifts and grants from donors who preferred not to give money directly to the institutions themselves. In this regard, it was evident that funds obtained and controlled by the foundation were free of appropriation and legal constraints and could be used with a flexibility not normally available to the institution.

The Custer County Junior College Endowment was established in 1964 as a nonprofit Montana corporation. The corporation was renamed the Miles Community College Endowment in 1969. Its articles of incorporation state that it was formed for the following purposes:

> "1. To accumulate and provide a fund, or funds, to be invested and reinvested, and to use the income and principal thereof to foster, encourage and develop educational facilities for the use of the Miles Community College of Miles City, Montana.
>
> "2. To accumulate and provide a fund, or funds, to be invested and reinvested, and to use the income and principal thereof for the granting of scholarships, establishing educational aid programs, establishing research projects and to assist in the athletic program for students attending the various branches and departments of the Miles Community College of Miles City, Montana.
>
> "3. To carry on, encourage and develop activities of such a nature and character as to publicize the activities and educational program of the Miles Community College in Miles City, Montana; to expand and enlarge the college so as to include greater Community College facilities and to provide and (sic) organization whereby graduates, former students and friends of the Miles Community College may be advised as to the development and progress of the college."

The foundation is governed by a seven-member board of directors. At the time of our review, two directors of the endowment were also

members of the Miles Community College Board of Trustees.

Transactions between the community college and the foundation have not been substantial. However, as the college grows, the foundation expects to play a more active role in college financing. In our audit reports on the University of Montana (June 1975) and Montana State University (February 1976), we raised several issues with respect to the relationship between each institution and its privately incorporated foundation. Many of these same issues could become significant to Miles Community College as the foundation becomes more active.

The foundation is a separate corporate entity. Its transactions should be separate and apart from those of the college. However, because of the close relationship between the two, transactions of the foundation frequently affect college operations. Foundation revenues and expenditures are not and should not be recorded in the college's accounts. However, any foundation expenditures made on behalf of the college must be shown on the college's financial statements as revenue to portray a complete picture of college operations.

In October 1974 the college received $4,599 from an estate. The college did not record the receipt of this money but instead transferred it to the foundation. The college has no authority to give revenue to the foundation. Because the foundation is a separate legal entity, the college loses control over the money when it is given to the foundation. The college expects this money will be spent to support the college, but it has no formal means of assuring this will be done. All future gifts or endowments made to the college should be retained by the college and should be accounted for in the appropriate college fund.

RECOMMENDATION

We recommend that the college:

1. *Retain custody and control over money received through gifts to the college.*
2. *Ensure that foundation expenditures made on behalf of the college are shown as revenue in the college's financial statements.*

CASH

Miles Community College currently maintains three bank accounts outside of the Custer County treasury. These accounts contain money from several sources including student tuition, auxiliary funds such as bookstore and food service receipts, student building fees, federal student aid moneys, and agency funds such as cheerleader and Rodeo Club receipts. The balances in these accounts totaled $29,541 at June 30, 1976.

The college does not have legal authority for maintaining these bank accounts. In December 1973 the deputy county attorney of Dawson County addressed this question in an opinion to the president of Dawson Community College. The opinion held that the college could not establish checking accounts outside of the county treasury and also that all funds, other than agency funds, must be deposited with the county treasurer. This opinion should also apply to Miles Community College. A copy of the opinion is included on page 40 of this report.

RECOMMENDATION

We recommend that the college deposit all college money with the Custer County Treasurer.

Internal Control

Miles Community College maintains in the school vault cash balances which it uses for its daily operations. The vault also contains confidential documents such as student grade files. The combination to the vault has not been changed in several years. During this period, several employees who know the combination have terminated employment. Security over cash and other items in the vault would be improved significantly if the vault combination were changed on a regular basis.

The comptroller at Miles Community College records nearly all transactions for the college. He also processes receipts and makes bank deposits. In addition to these duties, he prepares the reconciliations for all bank accounts. These duties are incompatible in a system with strong internal controls. The duties of cash receipting, preparing accounting records, and preparing bank reconciliations should be segregated as much as possible with the available staff.

RECOMMENDATION

We recommend that the college:

1. *Change the combination to the college vault.*
2. *Segregate the functions of cash receipting, preparing accounting records, and preparing bank reconciliations.*

CASH DISBURSEMENTS

Cash disbursements require strong internal controls to provide assurance that all payments are authorized and that only authorized payments are made. Miles Community College does not have strong controls in this area.

Cash disbursements should only be made when supported by valid invoices and receiving reports. Several purchases which we tested were

not supported by receiving reports. Without receiving reports, the business office cannot determine if goods have actually been received for which payment is being made. We found no invoices for many payments. This was especially prevalent in payments to athletic referees. This type of expenditure should be supported by a signed statement from the referee indicating the amount due and the date the service was performed.

The filing system used for paid invoices does not allow easy retrieval of the invoices. Reference to paid invoices is often necessary to determine if current invoices are accurate.

RECOMMENDATION

We recommend that the college:

1. *Require receiving reports for all materials.*
2. *Require invoices or supporting documentation for all payments.*
3. *Develop a filing system which allows quick retrieval of documents.*

Purchasing

Miles Community College does not require competitive bidding for items under $2,000. A purchase is initiated when an employee completes a purchase request. The employee's supervisor and the business office then approve the request. The purchase request has a space for vendor name, which is generally completed by the employee initiating the request.

This procedure allows an employee to decide where an item will be purchased. For small dollar items this system is satisfactory; however, for items over a certain dollar amount, a college employee familiar with purchasing procedures should designate the vendor. This would allow the

college to develop greater expertise in purchasing and would likely result in lower purchasing costs.

The college should consider the possibility of using the state Purchasing Division. The state Purchasing Division purchases in large quantities and often receives discounts not available to the college. This could save the college money on many items, especially office supplies, furniture, equipment and petroleum products.

RECOMMENDATION

We recommend that the college:

1. *Designate an employee to be responsible for college purchasing.*
2. *Investigate the possibility of utilizing the state Purchasing Division.*

STUDENT TUITION

The college catalog defines residence requirements for tuition purposes. Miles Community College has three groups of students--in-district, out-of-district, and out-of-state. Different tuition fees are assessed each group. During fiscal year 1975-76 the fees for full time students were $60 for in-district, $100 for out-of-district, and $200 for out-of-state. The results of our review of registration procedures indicate the college does not enforce these requirements.

Tests used and documented by the college are not sufficient to determine whether a student is an "in-district" or "out-of-district" resident. The Board of Regents has adopted Item 3-014-R1273, dated December 10, 1973, which sets forth the tests to be used in determining the qualification and classification of students for fee purposes.

While this board item is addressed to "in-state" versus "out-of-state," the college should apply these same tests in determining "in-district" and "out-of-district" residency. The college should thoroughly document procedures used to determine a student's residency.

During registration, each student is required to complete an address form. We compared address cards to fee assessment forms and found that several students with out-of-district addresses were charged in-district tuition. We determined that for spring quarter 1976 the college lost revenues of approximately $340 from charging students incorrect fees.

A procedure employed by Montana's four year colleges, called a fee audit, could significantly reduce this loss of revenue. After registration, employees of the school should review each fee card to determine that proper charges were made and to determine mathematical accuracy. Students who were initially under-assessed should receive a bill for any additional fees.

RECOMMENDATION

We recommend that the college:

1. *Document procedures used to determine a student's residency.*
2. *Perform an audit of fee cards after each registration.*

FEE WAIVERS

During fiscal year 1975-76 the college waived tuition for various students. The amounts of these fees are depicted in the following table:

Miles Community College
Schedule of Fees Waived
Fiscal Year 1975-76

Type	Number	Amount
High School Honor	16	$ 3,260
Basketball	16	5,100
Drama	5	780
Tennis	1	180
Rodeo	8	2,070
Second Year Honor	7	1,420
Pioneer	1	300
	54	$13,110

The Board of Trustees determines the number of fee waivers which will be given. The Board of Regents has given the Board of Trustees this power in policy statements concerning community colleges.

The total collections plus fees waived for in-district, out-of-district, and out-of-state tuition total $72,248. Generally accepted accounting principles require that fee waivers be included in the statement of current funds revenue and current funds expenditures. In preparing the financial statements, we have included the amount of fee waivers in these statements.

INVESTMENTS

Miles Community College maintained investments with local banks during fiscal year 1975-76. The investments at June 30, 1976, amounted to $21,100 and were in the form of time deposits. The college purchased numerous 90 and 180 day certificates of deposit during the year. The investments yielded rates ranging between 5.5 and 7.5 percent. Interest income for the year was $11,136. An additional $965 was earned during the year but not received until after year-end.

The college could increase its investment earnings by utilizing the Board of Investments' Short-Term Investment Pool (STIP) which yielded 7.02 percent for fiscal year 1975-76. The college normally purchases

certificates of deposit in amounts greater than $100,000 for 90 or 180 days. A penalty is charged when a certificate is cashed before the maturity date. This creates a lack of flexibility in the investment program. By utilizing STIP, the college can invest in approximately $1,000 increments and can leave the money invested until the day it is needed.

Statutes do not require the college to use STIP; however, the Board of Investments can offer the college higher investment returns and full time investment expertise. In this regard, the Board of Regents (Board Item 1-001-R0773, July 9, 1973), have endorsed the services of the Board of Investments.

RECOMMENDATION

We recommend that the college consider establishing an investment program with the state Board of Investments to provide greater flexibility in its investment program.

PAYROLL

Payroll internal control procedures in effect at Miles Community College are inadequate. Currently the comptroller prepares all payroll information including warrants. The warrants are presented to the college's Board of Trustees for signature. After the trustees sign them, the warrants are returned to the comptroller for distribution.

The warrants should be delivered and distributed by someone independent of the payroll preparation function. Someone not involved with payroll preparation should also distribute employees' W-2 forms. Payroll records should be reviewed regularly by someone not involved in their preparation. Such a review could reveal incorrect or unusual adjustments in the records.

The college does not conduct termination interviews with terminating employees. In July 1976 the college paid a terminating employee $370 in termination pay. Of this amount $57 was for accrued sick leave. College officials could not explain the reason for the remaining $313. Termination interviews should substantiate any termination pay to be received by the employee. These would include accrued sick leave and vacation payments. The college should also determine if the employee has any debts to the college, such as travel advances.

Our review of employee files disclosed several employees without contracts for employment. Since the college does not have a formal pay plan, all employees should be required to sign contracts which state the duties to be performed and the salary to be received by the employee.

RECOMMENDATION

We recommend that the college:

1. *Improve internal controls over payroll.*
2. *Conduct termination interviews with all terminating employees.*
3. *Require employment contracts for all college personnel.*

EMPLOYEE LEAVE

Statutory provisions relating to vacation and sick leave are contained in Title 59, chapter 10, R.C.M. 1947. The applicability of state sick leave laws to school district personnel was considered in 35 Opinions of the Attorney General, No. 69. Therein it was held that non-teaching school district employees are entitled to sick leave benefits under Section 59-1008, R.C.M. 1947. Community college districts have the same powers as school districts in the state. State vacation and

sick leave statutes apply to non-teaching school district personnel, and we believe that they also apply to non-teaching community college district personnel. The policy currently in effect at the college varies from state policy. The college allows non-teaching personnel to accumulate a maximum of one year's vacation and 30 days of sick leave. State policy allows employees to accumulate a maximum of two times their annual vacation days earned and unlimited sick leave.

Section 59-1008(7), R.C.M. 1947, provides that the Department of Administration is responsible for the proper administration of sick leave and shall promulgate such rules as it deems necessary to achieve the uniform administration of sick leave and to prevent its abuse. The Montana Administrative Manual 1-0304.73, states that records of sick leave must be maintained in each agency and that these records should contain sufficient detail so that problems such as improper, repetitive, or excessive use of sick leave credits can be discovered and corrected.

The use of vacation and sick leave at Miles Community College is poorly documented. The college does not require employees to submit "Request for Leave of Absence" forms, and often no records are available to determine an employee's leave balance. Such records are needed because upon termination of an employee, the college has an actual liability for accumulated vacation and sick leave balances.

College procedures include other employee leave weaknesses which should be corrected. Statutes prescribe time intervals which an employee must work before leave can be granted. Employees of the college have been granted sick leave before three months of continuous service and vacation leave before six months of continuous service, contrary to the requirements of Sections 59-1001 and 59-1008, R.C.M. 1947.

Teaching personnel are exempt from vacation and sick leave statutes; however, the college should develop reasonable guidelines for their use of sick leave. The college has not specified a maximum number of days which may be taken before a loss of pay results. Employment contracts should specify a limit to the number of days which will be allowed.

RECOMMENDATION

We recommend that the college:

1. *Follow statutory guidelines concerning employee leave.*
2. *Specify a maximum number of days for which teaching personnel can take sick leave.*

EMPLOYEE TRAVEL

The college does not have adequate controls over travel advances to ensure compliance with guidelines established by the college's board of trustees. The college used two travel advance systems during the year. Neither was adequate.

The first system was used until March 1976. The college issued checks to employees for anticipated travel needs. These advances were not recorded in an accounts receivable ledger. Instead, the advances were recorded in the warrant register in the same manner as expenditures. This system was changed because the business office had problems in securing actual travel details from employees. Also, the only method to determine if advances were given was to scan the warrant register and find a check made to an employee.

In March 1976 the college instituted a new system whereby when an employee received an advance, the college required a personal check from the employee for the amount of the advance. If the employee did not

return a travel expense voucher, the college cashed his personal check. Although this method is an improvement over the previous system, it is not adequate. When an advance is given, the amount should be recorded in an accounts receivable ledger. If the employee does not return this advance or submit an expense voucher, other steps could be taken to assure its return.

We noted other problems in the area of employee travel. The college's board of trustees has established policies for travel reimbursement which include maximum amounts which will be reimbursed for meals and a requirement that each claim be substantiated by appropriate receipts. We found several travel claims which did not contain receipts for meals or lodging as required by the faculty and staff handbook. In general, most travel claims did not contain sufficient documentation to enable a determination of the reasonableness of the claim.

RECOMMENDATION

We recommend that the college:

1. *Establish a ledger to record travel advances.*
2. *Require adequate documentation for expenses claimed for travel.*

AUXILIARY ENTERPRISES

The college has two major auxiliary enterprises, the book store and the food service. Internal controls are not adequate for either operation.

The bookstore has one employee. This employee receives all bookstore cash, prepares deposits and records entries in the cash receipts journal. The bookstore also does not maintain inventory records which include dollar values. Records disclosing the value of inventories are

necessary to determine the cost of goods sold. Without the cost of goods sold, the college cannot determine profit or loss from the bookstore operation.

The food service is operated by the food service manager. Each Friday the manager empties the cash register. The manager then takes the money to the college business office where a bank deposit is prepared. The business office does not compare cash register tapes with cash deposits.

The following recommendations for internal control improvement are applicable to both the bookstore and food service operations.

1. Employees of the business office should clear the bookstore cash box and the food service cash register.
2. Business office employees should compare prenumbered receipts and cash register tapes to actual cash deposits.
3. Only business office employees should make entries in the cash receipts ledger.
4. Business office employees should maintain inventory records to account for the cost of inventory on hand.

The college food service has operated at a loss, causing its cash account to have a negative balance. Since the cash is pooled in one bank account, the food service is operating with cash belonging to other accounts. The food service had a negative cash balance of $10,717 at June 30, 1976.

On a cash basis, the food service lost $4,873 during fiscal year 1975-76. Total revenue was $10,087, and food costs alone were $7,767. In a commercial restaurant, food cost as a percentage of revenue is ordinarily less than 35 percent, while the food services' food cost

represents 77 percent of revenue. Although the food service should only break-even rather than making a profit, the current prices are not adequate to recover all costs. The college should take steps to insure that the food service operates on a break-even basis.

RECOMMENDATION

We recommend that the college:

1. *Implement the above-described internal control procedures for the college bookstore and food service.*
2. *Develop an inventory accounting system for the bookstore.*
3. *Take action to operate the food service on a self-supporting basis.*

PLANT, PROPERTY AND EQUIPMENT

In March 1976 Miles Community College published an institutional self study for the Commission on Higher Schools and the Northwest Association of Secondary and Higher Schools. The report included values for instructional equipment and instructional support equipment which we have included in the college's financial statements. We could not find adequate support for these figures. The college does not have complete listings for equipment, and values are not contained in ledgers or journals. Historical cost data is not available for many items.

Two basic premises of sound property control are the assignment of custodial responsibility and the establishment and verification of accountability by persons separate from those having custody of the assets. The assignment of responsibility assures that someone is responsible for protecting college property and is accountable should a physical count reveal missing property.

The college should develop a listing of all college property. The listing should include the location of the assets and the historical cost of each asset. If historical cost records are not available, historically based estimates should be included. The college should maintain records which record the costs of any improvements to property.

A listing of assets is meaningless if a system of identification is not implemented. Property number decals should be affixed to all college assets. Without identifying decals, only that small portion of the property which has serial numbers can be positively identified. The college should take periodic inventories to properly account for the property. The college should delete or add items to the listing when property is purchased or disposed of.

RECOMMENDATION

We recommend that the college:

1. *Implement a system of property control and accountability which will:*
    a. *Provide for placement of an identification number decal on all equipment.*
    b. *Fix custodial responsibility through identification of equipment locations.*
2. *Prepare accounting records which reflect the value of the college's plant, property and equipment.*

FINANCIAL STATEMENTS

MILES COMMUNITY COLLEGE
BALANCE SHEET
JUNE 30, 1976
With Comparative Figures at June 30, 1975

ASSETS

	June 30, 1976	June 30, 1975 (Unaudited)
CURRENT FUNDS:		
Unrestricted:		
Cash	$ 157,219	$ 125,863
Accounts Receivable	3,596	6,914
Due from Other Funds	7,500	
Auxiliary:		
Cash	(7,404)	(3,803)
Accounts Receivable	1,687	1,763
Total Current Unrestricted	162,598	130,737
Restricted:		
Cash	10,540	16,186
Total Current Restricted	10,540	16,186
Total Current Funds	$ 173,138	$ 146,923
LOAN FUNDS:		
Cash	$ 22,264	$ 13,413
Student Loans Receivable (Note 6)	68,341	57,318
Total Loan Funds	$ 90,605	$ 70,731
PLANT FUNDS:		
Debt Retirement:		
Cash	$ 12,708	$ 19,113
Investments	21,100	16,100
Interest Receivable	965	
Total Debt Retirement	34,773	35,213
Investment in Plant:		
Land (Note 9)	85,580	85,580
Buildings	905,497	905,497
Equipment (Note 8)	321,105	321,105
Total Investment in Plant	1,312,182	1,312,182
Total Plant Funds	$1,346,955	$1,347,395
AGENCY FUNDS:		
Cash (Note 11)	$ 807	$ (98)
Total Agency Funds	$ 807	$ (98)

LIABILITIES AND FUND BALANCES

	June 30, 1976	June 30, 1975 (Unaudited)
CURRENT FUNDS:		
Unrestricted:		
Accounts Payable	$ 6,470	$ 2,501
Fund Balance	161,845	130,276
Auxiliary:		
Fund Balance	(5,717)	(2,040)
Total Current Unrestricted	162,598	130,737
Restricted:		
Accounts Payable	1,610	
Due to Other Funds	7,500	
Fund Balance	1,430	16,186
Total Current Restricted	10,540	16,186
Total Current Funds	$ 173,138	$ 146,923
LOAN FUNDS:		
Fund Balance	90,605	70,731
Total Loan Funds	$ 90,605	$ 70,731
PLANT FUNDS:		
Debt Retirement:		
Fund Balance	$ 34,773	$ 35,213
Total Debt Retirement	34,773	35,213
Investment in Plant:		
Notes Payable (Note 4)	225,145	210,112
Bonds Payable (Note 4)	180,000	200,000
Fund Balance	907,037	902,070
Total Investment in Plant	1,312,182	1,312,182
Total Plant Funds	$1,346,955	$1,347,395
AGENCY FUNDS:		
Deposits Held in Custody for Others	$ 807	$ (98)
Total Agency Funds	$ 807	$ (98)

MILES COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1976

	Current Funds			Plant Funds	
	Unrestricted	Restricted	Loan Funds	Debt Retirement	Investment In Plant
REVENUES AND OTHER ADDITIONS:					
Education and general revenues	$686,679	$228,056	$ -0-	$ -0-	$ -0-
Auxiliary enterprises revenue	80,593	-0-	-0-	-0-	-0-
Retirement of indebtedness	-0-	-0-	-0-	-0-	23,508
Interest on loans receivable	-0-	-0-	497	-0-	-0-
Government contribution to loan funds	-0-	-0-	18,247	-0-	-0-
District levies for debt retirement	-0-	-0-	-0-	20,247	-0-
Student fees	-0-	-0-	-0-	4,908	-0-
Interest income	-0-	-0-	-0-	965	-0-
Total revenues and other additions	767,272	228,056	18,744	26,120	23,508
EXPENDITURES AND OTHER DEDUCTIONS:					
Education and general expenditures	645,127	246,083	-0-	-0-	-0-
Auxiliary enterprises expenditures	84,271	-0-	-0-	-0-	-0-
Loan cancellations	-0-	-0-	129	-0-	-0-
Administrative and collection costs	-0-	-0-	652	-0-	-0-
Retirement of indebtedness	-0-	-0-	-0-	23,508	-0-
Interest on indebtedness	-0-	-0-	-0-	7,852	-0-
Addition to notes payable (note 4)	-0-	-0-	-0-	-0-	18,541
Total expenditures and other deductions	729,398	246,083	781	31,360	18,541
TRANSFERS AMONG FUNDS					
Mandatory					
Student aid	(5,182)	3,271	1,911	-0-	-0-
Non-mandatory					
Principal and interest	(4,800)	-0-	-0-	4,800	-0-
Total transfers	(9,982)	3,271	1,911	4,800	-0-
NET INCREASE (DECREASE) FOR THE YEAR	27,892	(14,756)	19,874	(440)	4,967
FUND BALANCE JUNE 30, 1975	128,236	16,186	70,731	35,213	902,070
FUND BALANCE JUNE 30, 1976	$156,128	$ 1,430	$90,605	$34,773	$907,037

MILES COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUE
Fiscal Year Ended June 30, 1976

	Unrestricted	Restricted	Total
EDUCATION AND GENERAL			
TUITION AND FEES			
In District	$ 36,956	-0-	$ 36,956
Out of District	18,055	-0-	18,055
Out of State	3,125	-0-	3,125
Adult Education	11,847	-0-	11,847
Other	12,982	-0-	12,982
Fee Waivers	13,110	-0-	13,110
	96,075	-0-	96,075
GOVERNMENTAL APPROPRIATIONS			
General Fund	350,642	-0-	350,642
District Levies	179,201	62,805	242,006
Vo-Ed Reimbursement	20,493	-0-	20,493
Federal	774	255	1,029
	551,110	63,060	614,170
GOVERNMENTAL GRANTS AND CONTRACTS			
Title I CETA	-0-	9,943	9,943
Title III Northern Cheyenne	-0-	105,497	105,497
Title VIa	-0-	1,604	1,604
Library Resources	-0-	3,918	3,918
Student Incentive Grants	-0-	1,690	1,690
Manpower	-0-	1,468	1,468
Associate Degree Nursing	-0-	7,675	7,675
College Work Study	-0-	17,377	17,377
Educational Opportunity Grants	-0-	24,486	24,486
Nursing Scholorship Program	-0-	5,066	5,066
Administrative Reimbursement	1,982	-0-	1,982
	1,982	178,724	180,706
GIFTS AND PRIVATE GRANTS			
Scholarships	-0-	4,118	4,118
OTHER SOURCES			
Interest Income	11,136	-0-	11,136
Title III Carroll College	25,818	-0-	25,818
Library Fund	558	181	739
	37,512	181	37,693
Total Education and General	686,679	246,083	932,762
AUXILIARY ENTERPRISES			
Bookstore	30,248	-0-	30,248
Student Center	5,641	-0-	5,641
Food Service	10,087	-0-	10,087
Bus and Car Operations	7,172	-0-	7,172
Activity Fees	8,655	-0-	8,655
Athletics and Recruiting	18,790	-0-	18,790
	80,593	-0-	80,593
TOTAL REVENUE	767,272	246,083	1,013,355
Excess of Transfers to Revenue Over Restricted Receipts (Note 12)	-0-	(18,027)	(18,027)
TOTAL RECEIPTS	$767,272	$228,056	$ 995,328

MILES COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 1976

	Unrestricted	Restricted	Total	Personal Services	Operations	Total
EDUCATION AND GENERAL						
GENERAL ACADEMIC INSTRUCTION	$383,355	$ 55,954	$439,309	$396,726	$ 42,583	$439,309
SPONSORED PROGRAMS						
Title III Northern Cheyenne Program	-0-	105,497	105,497	57,162	48,335	105,497
CETA and Manpower	-0-	11,411	11,411	3,842	7,569	11,411
Title III Carroll College	25,268	-0-	25,268	20,000	5,268	25,268
	25,268	116,908	142,176	81,004	61,172	142,176
LIBRARY	41,621	6,886	48,507	21,564	26,943	48,507
STUDENT SERVICES	57,599	5,308	62,907	41,004	21,903	62,907
OPERATION AND MAINTENANCE OF PHYSICAL PLANT	59,435	1,859	61,294	15,230	46,064	61,294
GENERAL ADMINISTRATION	51,779	6,433	58,212	50,608	7,604	58,212
GENERAL INSTITUTIONAL EXPENSE	12,960	-0-	12,960	-0-	12,960	12,960
STUDENT AID	13,110	52,735	65,845	16,871	48,974	65,845
Total Education and General	645,127	246,083	891,210	623,007	268,203	891,210
AUXILIARY ENTERPRISES						
Bookstore	30,780	-0-	30,780	1,840	28,940	30,780
Student Center	1,773	-0-	1,773	-0-	1,773	1,773
Food Service	14,968	-0-	14,968	6,215	8,753	14,968
Bus Operation	7,287	-0-	7,287	-0-	7,287	7,287
Car Operation	2,156	-0-	2,156	-0-	2,156	2,156
Activity Fees	8,737	-0-	8,737	-0-	8,737	8,737
Athletics	12,006	-0-	12,006	-0-	12,006	12,006
Athletic Recruiting	6,564	-0-	6,564	-0-	6,564	6,564
Total Auxiliary Enterprises	84,271	-0-	84,271	8,055	76,216	84,271
TOTAL EXPENDITURES	$729,398	$246,083	$975,481	$631,062	$344,419	$975,481

MILES COMMUNITY COLLEGE

Notes to Financial Statements

Fiscal Year Ended June 30, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements were prepared from agency records in accordance with standards recommended by the American Council on Education in its publication, College and University Business Administration. The financial statement disclosure is within the framework of the following four major fund groupings:

Current Funds

Current funds are available for current operations. Included in current funds are education and general and auxiliary enterprise funds. These funds are further classified as unrestricted or restricted. Unrestricted funds have no external expenditure restrictions, while restricted funds are externally restricted as to type or nature of expenditure.

Student Loan Funds

Loan funds are loanable to students to help finance the cost of their education. Although college sources provide certain loan funds, the federal government provides by far the largest percentage.

Plant Funds

Plant funds include money for the construction or renovation of plant, the retirement of debt and amounts previously expended for physical plant.

Agency Funds

Agency funds belong to other individuals and organizations for whom the college is acting as custodian or fiscal agent.

2. RETIREMENT PLAN

The college participates in two retirement plans, the Public Employees' Retirement System and the Teachers' Retirement System. Both plans are contributory. Retirement plan expense for fiscal year 1975-76 was $31,086.

3. VACATION AND SICK PAY

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent, nonteaching employees are allowed to accumulate no more than one year's vacation and 30 days sick leave. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with accumulated vacation and sick leave at June 30, 1976 is maintained in hours rather than dollars. The dollar liability is calculated when an employee terminates.

4. LONG TERM DEBT

Miles Community College currently is indebted under one long-term bond issue, one note and one lease purchase agreement. The proceeds of the debt were used to finance campus buildings. The following paragraphs describe the obligations:

The college had bonds payable of $180,000 at June 30, 1976. The bonds include the following:

Amounts	Maturity Year	Interest Rate
$ 60,000	1977 through 1979	3.20%
60,000	1980 through 1982	3.25%
60,000	1983 through 1985	3.20%
$180,000		

The bonds require an annual payment of $20,000 plus interest, which is paid from funds collected by district levies.

The college has a $205,541 note payable to the United States of America through the Secretary of Housing and Urban Development. The note bears an interest rate of 3 percent per annum. Payments are due semi-annually, and principle payments range between $1,741 and $4,500. The note is scheduled for retirement on July 1, 2012. Student fee assessments are used to retire this debt. The note was revised during 1976 from $187,000 to $205,541. This additional amount is interest which was added to the loan principal to cover the period of delay in finalizing the loan agreement.

The college leases a vocational education building in Miles City from the Miles Community College Endowment. The payments are $400 per month. The college has the right to purchase the building for $144 at the end of the lease period. The amount owed on the lease-purchase was $19,604 at June 30, 1976. The lease will expire in February 1981.

5. COAL BOARD

The college applied to the Montana Coal Board for funding to construct campus buildings. On May 20, 1977, the Coal Board awarded a grant to the college not to exceed $1,529,663 for construction of a library and a vocational training building.

6. ALLOWANCE FOR UNCOLLECTIBLE RECEIVABLES AND STUDENT LOANS

No allowance for uncollectible student loans or accounts receivable has been established by the college. College officials estimate $4,000 of student loans receivable are uncollectible.

7. COLLEGE WORK STUDY

The statement of current fund expenditures reports student aid personal services expenditures of $16,871. These are expenditures for

college work study students' wages. This amount should be reported as expenditures for the program in which the student worked; however, college records do not facilitate this disclosure.

8. EQUIPMENT

The college does not maintain adequate records for equipment. The amount shown for equipment was taken from a published college report. A further discussion of college fixed asset accounting is included on page 28 of this report.

9. LAND AND BUILDINGS

An athletic field and track is located on the college campus. The track was built with donated labor and materials. It is not practicable to determine the cost of the track for financial statement presentation.

Land is presented on the financial statements at 1971 appraised value, excluding the cost of any improvements, such as the athletic field and track.

Buildings are presented on the financial statements at historical cost, excluding the cost of any renovations or improvements.

10. LITIGATION

Various taxpayers have questioned the legality of the Miles Community College retirement levy, and $5,656 was paid under protest during 1975 and 1976. Litigation is currently pending before the Montana Supreme Court, and based on their opinion the college may receive the protested taxes. House Bill Number 619 passed by the 45th Legislature specifically authorizes the college district to levy a special tax for retirement payments.

11. POOLED CASH

The college maintains cash in three checking accounts as well as with the county treasurer. The cash is pooled, and one bank account may contain cash from several different funds. It is possible to have a negative balance in certain funds while maintaining an overall positive cash balance.

12. REVENUE

Generally accepted accounting principles for colleges and universities require that only the amounts equal to direct costs incurred for restricted funds shall be reported as revenues. Miles Community College received $228,056 in restricted receipts during fiscal year 1975-76 and expended $246,083 of restricted funds during the year. The difference is money received in a prior fiscal year. This money is identified on the statement of current funds revenue as "Excess of Transfer to Revenue over restricted receipts".

13. INVESTMENTS

Investments are stated at cost and consisted of certificates of deposit purchased from a Miles City bank.

OFFICE OF THE COUNTY ATTORNEY

DAWSON COUNTY MONTANA

COURTHOUSE - GLENDIVE, MONTANA 59330

KENNETH HAAG
COUNTY ATTORNEY
PHONE 365-4370

DALE COX
DEPUTY COUNTY ATTORNEY
[redacted]
PHONE 365-5206

December 27, 1973

Mr. James Hoffman, Pres.
DAWSON COLLEGE
300 College Drive
Glendive, Montana 59330

Dear Mr. Hoffman:

You requested the County Attorney's office to answer certain questions relative to Mr. John Cross' comments in his audit of District funds.

The community college district is a creature of statutes adopted by the legislature, and powers are granted to the community college district by the legislative act and other pertinent statutes. A community college district has only those powers expressly granted to it and necessarily implied from the powers expressly granted. It is like any other municipal corporation in that its powers are very restrictive.

Relative to budgeting, the legislature specifically required that community college districts be placed under Chapter 68, Financial Administration of the School law. That law specifically says in Section 75-6802 that the financial administration laws of title 68 are applied to all monies of community college districts excepting the extra-curricular monies realized from pupil activities.

In Section 75-6801, of Chapter 68, the law defines "Funds" as meaning a separate detailed account of receipts and expenditures for a specific purpose as authorized by law. A budgeted fund means any fund for which a budget must be adopted in order to expend any monies from such fund, which is the usual budget of a school district. A non-budgeted fund means any fund for which a budget is not required in order to expend any monies in such fund.

The statute goes on to state that school food services funds, federal programs funds, building funds, housing and dormitory funds, traffic education funds, inter-local cooperative funds, and others so designated by the legislature shall be non-budgeted funds. <u>All</u> district and college funds, by Section 75-6802 and Section 75-6805, shall be deposited with the County Treasurer, with the exception of extra-curricular monies realized from pupil activities.

As to the investment of surplus monies within funds, Section 75-6805 states that it is the duty of the County Treasurer to invest the monies as directed by the Trustees of the district; and then it goes on to say that they be invested in accordance with Sub-Section 2 of Section 16-2050, which governs excess money for construction purposes derived from the sale of bonds, but states the interest must be credited to the sinking fund or may authorize expenditures from interest earned for furnishing and equipping the buildings for which the bonds were sold. Section 75-6805 also authorizes the investment of the money under Sub-Section 8 of Section 16-2618, which authorizes trustees to have the money invested not to exceed 180 days, and further says all interest collected on such deposits or investments shall be credited to the fund from which the money was withdrawn.

There is no question that the County Treasurer and Board of Trustees can invest pooled money, but the interest must be prorated back to the individual accounts from which is was pooled. It cannot be used for an entirely new purpose.

In answer to the specific question as to the investment of the surplus budgeted funds which resulted because of the payment of the state's share, the interest received from this investment has to be used for a budgeted item. If the amount is not included within this year's budget, it cannot be spent except by emergency procedures this year, and has to be carried over into next year's budget.

There appears to be some theory that Section 75-8133 broadens the power of a community college because it generally allows monies to be deposited with the County Treasurer or with other depositories approved by the Board of Regents. This is a general statute, and Section 75-6802 is a very specific statute and this general statute does not overrule the restrictions contained in Section 75-6802. Monies of the district must still be deposited with the County Treasurer.

What it does mean is that monies which need not be deposited with the County Treasurer as provided by Section 75-6802 -- which would be student funds, loan funds, etc. -- can be deposited in depositories approved by the Board of Regents.

I note a comment that VCIP funds are not established by the district, but by the Dawson College itself with the state and/or federal government; and therefore, the County Treasurer does not have the responsibility for them. This reasoning is false, inasmuch as there is no legal entity of Dawson College. The entity is a community college district, and in essence, even though contracts are signed as "Dawson College," it is the district that is signing those contracts. These monies are monies of the district for financial purposes and have to be deposited with the County Treasurer.

If the district wishes to financially administer its funds, as recommended by the National Association of Colleges and University Business Officers, we can only suggest that the legislature change the present law.

To answer some of the questions the Superintendent of Schools asked, student tuition money must be deposited with the County Treasurer. Special funds granted to the College for the Crime Commission, Manpower Development and Training, BIA, Workstudy, Secretarial Science, etc., are non-budgeted funds and also must be deposited with the County Treasurer. However, if they are financed out of budgeted funds, I would assume that upon receipt of these reimbursements they have to be included in the budget.

Relative to the three statements that Mr. Cross made in his letter of October 29, 1973, as to the conclusions of the College Administrators, please be advised as follows:

1. That non-budgeted funds must be deposited with the County Treasurer, and then be invested with the Board of Trustees as stated above. But they cannot be withdrawn from the County Treasurer except under the usual procedures.

2. The college may not retain budgeted funds, but must deposit them with the County Treasurer immediately.

3. The College may not establish separate checking accounts and disburse by check certain of its non-budgeted funds.

Very truly yours,

DEPUTY COUNTY ATTORNEY

/111

cc: John M. Cross
Leone R. Langemo
Margaret Temple
Gene Wood
Ken Haag

AGENCY REPLIES

MILES COMMUNITY COLLEGE
2715 Dickinson
MILES CITY, MONTANA 59301

June 29, 1977

JUN 30 1977
MONTANA LEGISLATIVE AUDITOR

Ms. Ellen Feaver
Deputy Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59601

Dear Ellen:

Enclosed is our reply to the Audit Report for Miles Community College. Please accept our thanks and appreciation for the help you and the Auditor's Office and staff have given us.

Hopefully the future operations of community colleges will be easier and better as a result of your assistance.

Very truly yours,

Vern Kailey

Vernon R. Kailey
President

VRK:kl

Enc.

MILES COMMUNITY COLLEGE

2715 Dickinson
MILES CITY, MONTANA 59301

June 28, 1977

TO: Legislative Audit Committee

FROM: Vernon R. Kailey, President
Miles Community College

SUBJECT: Reply to Audit Report

Following is the reply to the Audit Report, prepared in consultation with the Administrative Staff and Trustees of Miles Community College:

COLLEGE ACCOUNTING

College Recordkeeping:

1. Concur. The three community colleges and the Commissioner's Office have been discussing ways of implementing the record-keeping system being considered for the university units. Further meetings with budget staff personnel in the Commissioner's Office are planned for this Summer and Fall.

2. Concur. This is also included in the planning being done with the Commissioner's Office.

Accrual Accounting:

1. Concur. To be implemented as soon as the new processes can be set up.

2. Concur.

INTRA-COLLEGE TRANSFERS

The Board of Trustees has discussed the matter of delegating warrant signing authority to appropriate college personnel, but has not yet reached a decision. They want to look at alternatives for assuring that budgetary expenditures comply with Trustee authorization.

COLLEGE FINANCING

The report of the Auditors is substantially correct. Hopefully the Interim Legislative Joint Committee and the community colleges can develop a body of community college law that will rectify problems existing in this area. All tuitions will be deposited in the County Treasurer's Office on July 1st as is done each year. Tuition Collected Fall Quarter and thereafter during the fiscal year will be deposited

in the Treasurer's Office as requested.

Distribution of Appropriation:

The community colleges have budgeted anticipated interest earnings as a part of total available budget revenues. If this money is no longer to be available because allocations to the college are to be made on an incremental basis we will encounter problems until some way is found to replace these interest dollars.

COLLEGE FOUNDATION TRANSACTIONS

1. Concur. The college will make provisions in the new budgeting and accounting system to comply.

2. Concur.

CASH

Concur. All funds other than agency funds will be deposited in the County Treasurer's Office.

Internal Control:

1. Concur. The vault combination will be changed.

2. Concur. We will comply to the best of our ability within the limits of physical facilities and personnel which are realities in a small college such as ours. Guideline suggestions will be implemented when they are received.

CASH DISBURSEMENTS

1. Concur.

2. Concur.

3. Concur.

Our basic policies have always been in compliance with these recommendations. We will review our implementation practices to assure a more constant compliance with existing policy.

Purchasing:

1. The President and Comptroller have generally controlled purchasing through direct control of physical plant purchases and approval of budgets and vouchers from the Deans of Instructional and Student Services. The college follows state statutes for letting bids and contracts. The $2,000.00 figure in the College Policy Handbook will be changed to coincide with the current limitations provided by law. For purchases of significant value (but under the amount requiring bids) the college requests price quotes from

several suppliers to assure the best buy possible.

2. The College Trustees generally feel that local support for the operation of the College is more easily generated when we purchase as much as possible locally. However, we will investigate the savings potential available through the State Purchasing Division.

STUDENT TUITION

1. Concur. We will require students who claim a different place of residence from that indicated on their application materials to complete a documentation form. This form will include the criteria as established by the Regents and the College Trustees for various residency classifications.

2. Concur. We will perform a fee audit of registration cards following each quarter's registration.

FEE WAIVERS

We will show fee waivers as income and expenditures under the new accounting and budgeting format.

INVESTMENTS

This may not be a problem in the future if the community colleges no longer receive all of the state appropriated monies on July 1st, as in past years. Again, the Trustees feel that local institutions that support the College should have the opportunity to participate in and benefit from the College investment program.

PAYROLL

1. Concur.

2. Concur.

3. Concur.

   Our intention has been to comply, though our processes have not always been effective. We will tighten up our processes to satisfy these recommendations as we implement the new budgeting and accounting system.

EMPLOYEE LEAVE

1. Do not concur. We do not believe that our college employees come under the provisions of state vacation and sick leave policies.

2. The Trustees negotiated a Contract to begin July 1, 1977 covering all full-time employees of the College. Most of the provisions of the state plan were used as the basis for determining and administering the college plan.

Records of vacation and sick leave are maintained. "Request for Leave of Absence" forms have been used since July 1976. Prior to the negotiated contract effective July 1, 1977, an employee had to work three months before being eligible for sick leave benefits. An oversight has occurred in the management of vacation and sick leave if this policy has not been fully complied with. New policies and practices will be established to provide needed safeguards.

EMPLOYEE TRAVEL

1. Concur. A travel advance ledger will be established.

2. Concur. Travel Vouchers have been revised to provide sufficient documentation of travel expenses.

Auxiliary Enterprises:

1. Concur.

2. Concur.

3. Concur.

   More regular and precise internal control and inventory processes will be established and implemented during the 1977-78 fiscal year. Food service had a modest surplus at the end of the current (76-77) year, owing primarily to increased volume. It is anticipated that the trend will continue.

PLANT, PROPERTY, AND EQUIPMENT

1. Concur. We will move as quickly as possible to establish and implement a system of property control and accountability on all equipment items.

2. Concur. Accounting records will be prepared which show the value of the plant, property, and equipment of the College.

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA
59601

COMMISSIONER OF HIGHER EDUCATION

June 23, 1977

RECEIVED
JUN 24 1977
MONTANA LEGISLATIVE AUDITOR

Mr. Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Morris:

The audit of Miles Community College directed two recommendations to the Commissioner's office.

Page 5 -Recommendation 1

1) The Board of Regents establish a uniform community college recordkeeping system in accordance with the fund accounting system recommended by the ACE.

Response - I concur.

I have directed my fiscal deputy and community college coordinator to meet with personnel from all three community colleges and begin the accounting conversion to CUBA this summer.

Page 13 - Recommendation 1

We recommend that the Commissioner of Higher Education distribute appropriated moneys to the college on an incremental basis.

Response - I concur.

The original appropriation bill providing general fund money to community college districts was HB 11 passed in 1971. Section 2 of that act provided that "these moneys shall be transferred from the general fund to the County Treasurers of the respective counties on July 1 of each fiscal year."

The original language has been interpreted by this office as legislative intent regarding community college distributions. There is no statutory provision which addresses this issue so the Regents would not be precluded from distributing the money on a monthly basis or some other time-phased approach.

The community colleges, however, budgeted and planned for the interest income from the general fund to meet part of their operating budgets for the coming biennium. I would recommend that for the next two years the general fund money be distributed in two annual installments so that the last interest income can be partially offset.

I would have no objection to fully implementing the recommendation commencing with the next legislative appropriation.

Sincerely,

Larry

Lawrence K. Pettit
Commissioner of Higher Education

LKP:wb